Reforms in the nineties paved the way for performance measurement ...

For a number of years Italy has engaged in reforms aimed at reinforcing the appropriation function of the budget decision in Parliament and improving the performance of government departments.

Both processes explicitly refer to the use of indicators/targets, alongside financial allocations.

- **1997 - budget reform**
  - a reduced number of budget units subject to Parliamentary vote
  - “preliminary notes” with quantified data in terms of final services delivered and levels of intervention and indicators of efficiency and effectiveness, the criteria used in drawing up the budget’s financial forecast and additional personnel requirements

- **1999 - public sector modernization reform**
  - separation between conception/politics and execution/administration
  - public managers are given more responsibility and autonomy
  - provisions on internal control and strategic planning
... the more recent reforms further strengthen the request for performance information

- 2009 – productivity, efficiency and transparency of the public sector reform
  - making public officials more responsible for the management of public resources
  - evaluation system for all public employees based on indicators allowing comparison and benchmarking
  - new disciplinary sanctions, performance-related pay and career advancement more dependent on evaluations and less on seniority
  - external “independent” agency to guide the process and control
  - large dissemination of information on indicators and targets for public scrutiny

- 2009/2010 (at final stage of discussion in Parliament) - accounting and public finance reform
  - introduces more fiscal policy coordination across levels of government, more transparency and accountability requirements
  - opens the way for a medium-term expenditure framework (details to be specified in secondary legislation)
  - Parliament vote set a the “program” level (more flexibility in budget execution)
  - brings about a greater focus on performance and results and spending reviews
The general model is based on the integration between financial and strategic planning.

Ministry Policy Priorities → Organizational goals → Operational goals

Governement overall objectives

State Budget classification

Outcomes

Preliminary notes level

Measuring Inputs & administrative activities

Management level and evaluation of public manager performances
Several institutional bodies provide guidelines of parts of the whole process (RGS/Min Economy and Finance; Min Public Administration; Department for the implementation of the Government program)

Ministry’s policy priorities

Contain the policy priorities set by each Minister, that should guide the resources allocation process (by end of March)

Preliminary notes to the Budget

these are “translated” into indicators and targets for each government department, which are associated to budget appropriation proposals for the next year’s budget (September);

Annual Minister directives

each Minister formally assigns resources and targets to specific centers of administrative responsibility and final targets are broken-down into operational and organization targets, monitored through management control systems (by end of January)

Notes to the Final Statement of accounts

At the end of the year these notes show the objectives achieved and compare them with the objectives foreseen in the preliminary notes. They are transmitted to the Supreme Audit Court together with the final Statement of Accounts (June/July)

Performance Report

Document intended to inform the Parliament about the activities performed by the Government (June/July)
A strengthened role of the preliminary notes

- ... for at least a decade the use of indicators and targets in the budget process has been basically disregarded ...

- since 2008, the Italian State budget expenditures are no longer classified according to the responsible department (who does the spending), but according to their purpose (what the spending is for)
  - 34 "missions", representing the main functions carried out by the State through public expenditure, such as Justice, Health, Defense, Education, etc. (with a long term perspective)
  - about 165 "programs", representing the desired impact of public intervention on the economy, society and territory (i.e., expected outcomes) or the services produced (i.e., expected outputs)

- Preliminary notes should consolidate the link between the aims of the various missions and programs and the financial resources allocated to pursue such objectives, announcing targets ex-ante and providing information on results ex-post
What do the indicators measure?
Some examples ...

Mission:
Sustainable development and preservation of the environment

treatment and disposal of waste and management of water resources

decontamination and cleaning-up of soil

waste management

% of polluted sites decontaminated

% decontaminated sites which are re-used

% re-cycled urban waste
Several critical aspects emerged by analyzing the contents of the 2008 and 2009 preliminary notes:

- A large number of goals and indicators (**more than 1000 different goals** and with an average of **1.5 indicators per goal**)
- The number of goals associated to a given mission does not seem correlated to the relative importance of the mission in terms of financial resources, (**many objectives representing small budgets**)
- The goals: sometimes too detailed sometimes vague (**hard to understand them**).
- Although the total number of goals is more or less the same in both years, the number of goals associated to each single mission varied considerably, (**goals not stable from one year to the other**)
- Only a relatively small share of indicators represent outputs or intended outcomes (**few outputs and outcome indicators**: about 25%),
- The little care for explaining what the indicator should represent and **no baselines or benchmarks**
What do the indicators actually measure? / 1

- Are most goals further detailed by indicators and targets? **well ...**
- Definitions are not rigorous, no information on the calculation method and source
- Most indicators cannot be measured or verified from external bodies
- ... instructions given to government departments focus more on classification aspects than on the actual contents
- No baselines, no benchmarks or other information to “understand” the target

![Pie chart showing the status of indicators and targets in 2009](chart.png)
What do the indicators actually measure? / 2

**Type of Indicators – Year 2009**

- Financial input: 26.5%
- Binary: 16.6%
- Physical output: 19.2%
- Result: 23.0%
- Outcome: 0.9%
- Other inputs: 7.4%
- Not available: 6.3%

Italian Performance Reforms
Obstacles and efforts towards a more relevant use of indicators and targets

The evidence brought in this analysis proves there still is a huge effort to put into place. The current practices have produced an overabundance of data connected to small budget lines and goals referring to management concerns more than the priority aims of public policies.

Some of the major obstacles have been:

- Too many different laws, requirements and contradictory guidelines provided to government departments (sometimes even from different institutional bodies),
- Little attention for the actual measurement of results (that should accompany the Final Statement of accounts), even in the Parliamentary debate
- Measurement is a costly activity …

- Typical features of the traditional Italian budget process (annual, many funds to be allocated during the year and mid-year review, and still item based with little management flexibility etc.) which do not incentive sound/stricter department planning
Modernizing the budget process and the role of the “new” preliminary notes

The bill emphasizes the importance of performance measurement to accompany the State budget decision process and final statement of accounts.

**BUDGET LAW**

**Section one: Objectives, indicators and targets**
- the context and political priorities with reference to the government program,
- the objectives associated to each spending program, a description of the foreseen activities and the corresponding “result” indicators/targets referring to the level of service or intervention provided,
- the connection between the set of “policy” indicators/targets and the “operational” targets each department will use for evaluating employees

**Section two: Financial resources**
- the methodology adopted for financial forecasts with reference to the various types of expenditure (compensation of employees, intermediate consumption, investment, etc…) and the three year forecast for each program
- the laws underlying each spending program

**FINAL STATEMENT OF ACCOUNTS**

**Section one: Objectives, indicators and targets**
- the results obtained during the year according to the selected indicators,
- motivations for discrepancies between observed results and target values

**Section two: Financial resources**
- description of financial results,
- motivations for discrepancies between financial forecasts and results

The law states this information should be used for the next Budget law
Performance measurement and spending reviews

A specific section of the bill concerns the implementation of a permanent process of expenditure analysis (spending reviews) according the general principles that expenditure control must shift form an exclusively input-based to a more result-based practice and public managers should be granted more flexibility of resource use in exchange of more accountability of results.

The expenditure reviews are aimed at improving resource allocation and assisting government departments in planning their objectives by:

- checking on the classification of spending program
- rationalizing spending laws and identifying “obsolete” interventions
- improving methodology for financial forecasting for the next budget law
- set the basis for rationalizing expenditure through aimed interventions rather than across-the-board cuts
- identifying performance indicators within spending programs and assisting government departments in fixing targets, analyzing results and understanding discrepancies
For further information

- International workshop on performance budgeting - Rome, 20-21 April 2009

- Report on Expenditure of Central Government Departments 2009
  http://www.rgs.mef.gov.it/ENGLISH-VE/Archive/Report-on-expenditure-of-central-
  government-departments.pdf (and full version in Italian at
  http://www.rgs.mef.gov.it/VERSIONE-I/Servizio-s/Studi-per-1/Rapporto-
  s/index.asp )

- Classificazione per Missioni e Programmi, esercizio 2010
  http://www.rgs.mef.gov.it/VERSIONE-I/Bilancio-d/Bilancio-f/2010/Missioni-
  e/index.asp

- DDL riforma della contabilità e finanza pubblica (AS1397b),
  http://www.senato.it/leg/16/BGT/Schede/Ddliter/34520.htm

  State budget process”, forthcoming in Rivista di Politica Economica

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